1987-88 Public Accounts Digest

FOR THE FISCAL YEAR ENDED MARCH 31, 1988

PROVINCE OF BRITISH COLUMBIA

MINISTRY OF FINANCE AND CORPORATE RELATIONS

HON. MEL COUVELIER
Minister of Finance and Corporate Relations

89-03018/

British Columbia Cataloguing in Publication Data

British Columbia. Ministry of Finance and Corporate Relations.
Public accounts digest. — 1987/88 —

Annual.
Continues: British Columbia. Ministry of Finance and Corporate Relations. Public accounts of British Columbia, digest. ISSN 0831-6058
Report year ends March 31.

ISSN 0840-948X

1. Finance, Public — British Columbia — Accounting — Periodicals. I. Title.

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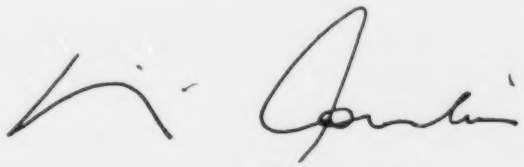
MESSAGE FROM THE MINISTER

The Public Accounts Digest summarizes the 1987/88 Public Accounts. The information in the digest is presented in a less technical fashion so it can be easily understood.

The information in this digest is taken from operating statements of the government and does not include Crown corporations.

The Public Accounts are published in three volumes. These contain the government's audited financial statements, together with supporting schedules; a listing of payments to elected officials, employees, suppliers and grant recipients; financial statements of Crown corporations and agencies and the auditors' reports. If you would like to review these detailed statements, you can obtain copies of the Public Accounts from Crown Publications Inc., 546 Yates Street, Victoria, British Columbia V8W 1K8.

I hope this third digest continues to serve as an important link in the chain of accountability between the government and all British Columbians.



Mel Couvelier
Minister of Finance
and Corporate Relations

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INTRODUCTION

An overview of the financial process which illustrates the critical stages of budget preparation, reporting and review is presented at the beginning of the digest.

The section on net revenue and expenditure shows results of the government's financial transactions for the fiscal year. Results are translated into per person ("per capita") figures to make the numbers more meaningful to the reader by removing the effects of inflation and population growth.

Specific information on revenue (income) is in the next section. Actual revenue is compared to budgeted revenue and the government's major sources of revenue are identified.

The section on expenditure (expenses) compares actual expenditure to authorized or budgeted expenditure. Highlights include a breakdown of costs of government services as well as the amounts spent on various categories of goods and services required to deliver government programs.

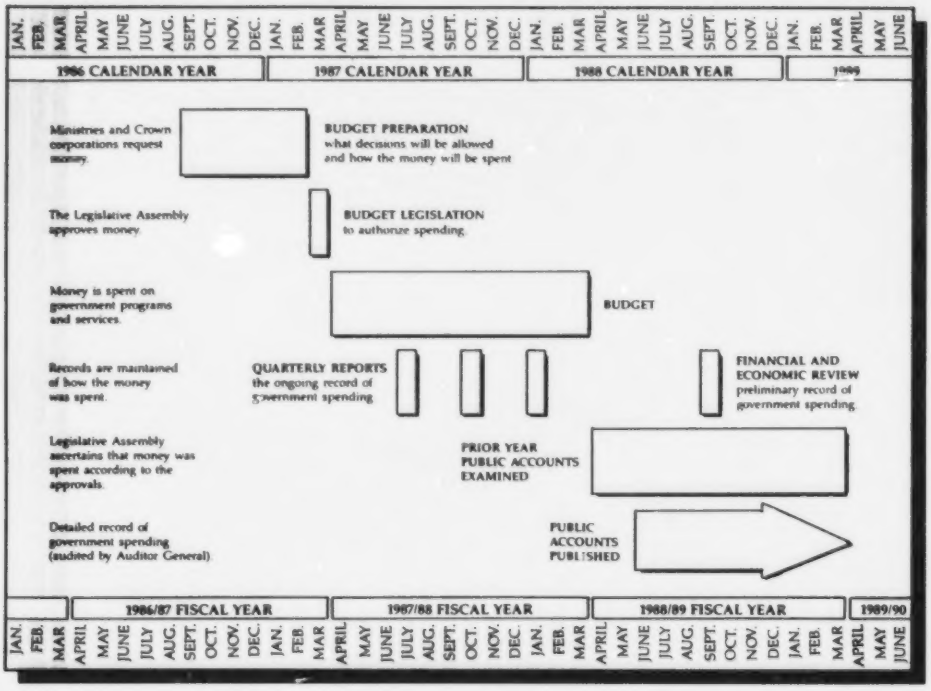
An explanation of how the government financed its operations and details of government borrowing can be found in the final two sections.

Summary financial statements are provided in the appendices.

OVERVIEW OF FINANCIAL PROCESS

The budget is a public document which outlines the government's revenue, expenditure and financing plans for the coming 12 months (April 1 to March 31). Preparation begins approximately eight months before the annual budget is presented to the Legislative Assembly. Each ministry first identifies activities that require funding. The budget process was revised for the 1989/90 fiscal year to include a preliminary review of ministry expenditure requests by a committee of government caucus members. Treasury Board, a committee of cabinet ministers chaired by the Minister of Finance and Corporate Relations, then reviews the caucus committee's recommendations and makes the final decisions on individual ministry budgets. Allocations to each ministry and program are arrived at in conjunction with revenue expectations and in harmony with the government's priorities.

CHART 1 THE FINANCIAL CYCLE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1986 CALENDAR YEAR
1987 CALENDAR YEAR
1988 CALENDAR YEAR
1989
Ministries and Crown corporations request money.
BUDGET PREPARATION
what decisions will be allowed and how the money will be spent
The Legislative Assembly approves money.
BUDGET LEGISLATION
to authorize spending.
Money is spent on government programs and services.
BUDGET
Records are maintained of how the money was spent.
QUARTERLY REPORTS
the ongoing record of government spending.
FINANCIAL AND ECONOMIC REVIEW
preliminary record of government spending.
Legislative Assembly ascertains that money was spent according to the approvals.
PRIOR YEAR PUBLIC ACCOUNTS EXAMINED
Detailed record of government spending (audited by Auditor General).
PUBLIC ACCOUNTS PUBLISHED
1986/87 FISCAL YEAR
1987/88 FISCAL YEAR
1988/89 FISCAL YEAR
1989/90
JAN. FEB. MAR APRIL MAY JUNE JULY AUG. SEPT. OCT. NOV. DEC. JAN. FEB. MAR APRIL MAY JUNE JULY AUG. SEPT. OCT. NOV. DEC. JAN. FEB. MAR APRIL MAY JUNE JULY AUG. SEPT. OCT. NOV. DEC. JAN. FEB. MAR APRIL MAY JUNE

The budget presented to the Legislative Assembly by the Minister of Finance and Corporate Relations is accompanied by the Estimates, a document sometimes referred to as the "Blue Book", that contains a list of estimates of revenue and spending programs, supplementary tables and statistical material. Spending for programs and services under each ministry is grouped in the Estimates into packages or "votes". They are called votes because Members of the Legislative Assembly debate and then vote on each package.

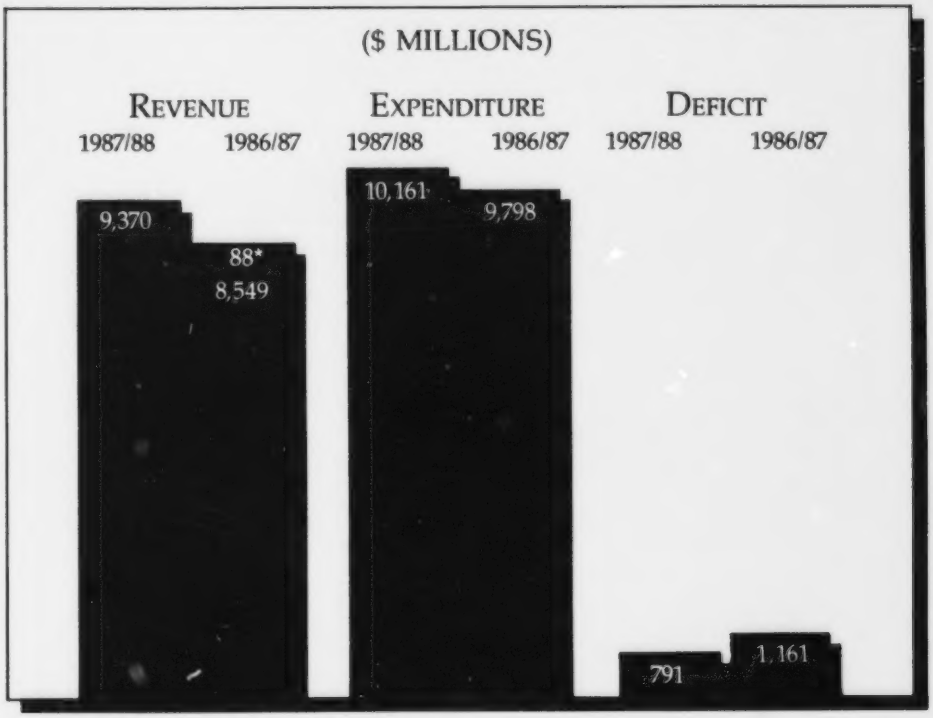
At the end of the financial year the Public Accounts are prepared by the Comptroller General for the Legislative Assembly describing the results of the government's financial operations. The Public Accounts contain the government's audited financial statements and detailed schedules and appendices.

Details on the financial process can be found in Appendix 1.

NET REVENUE AND EXPENDITURE

Net operating revenue of $9,370 million for 1987/88 increased by 10 percent over the previous fiscal year. As operating expenditures were $10,161 million, 4 percent higher than the previous year, the government had an operating deficit of $791 million after a transfer of $717 million to the Budget Stabilization Fund.

CHART 2 FINANCIAL HIGHLIGHTS



*non-operating transaction, see Chart 3.

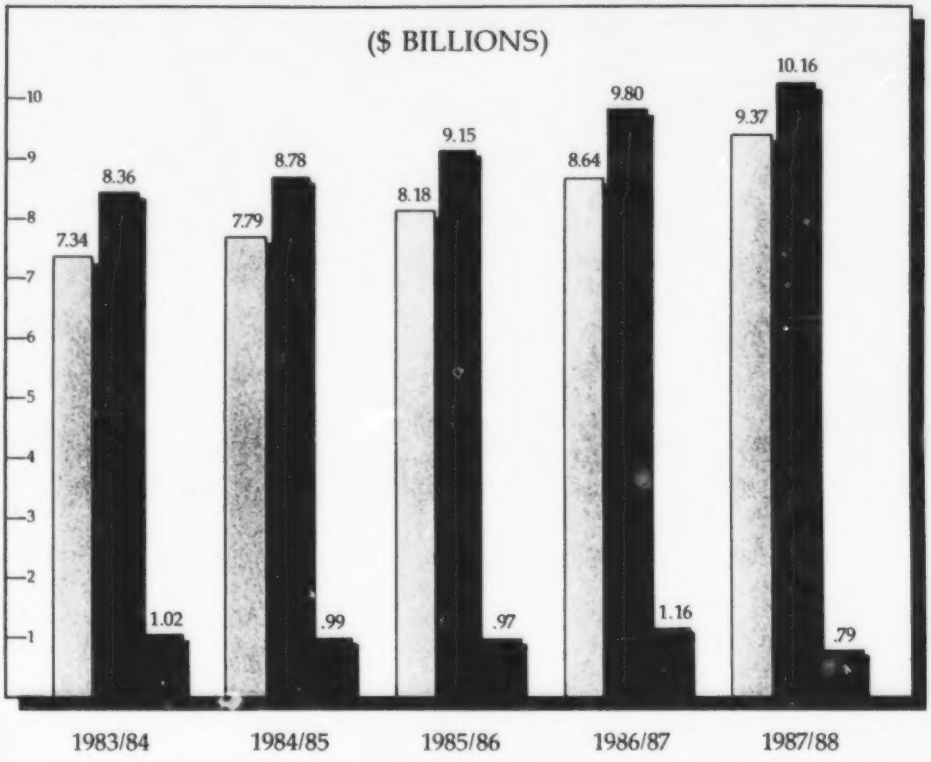
The excess of expenditure over revenue (deficit) for 1987/88, when added to previous years' accumulated deficits, gives an excess of liabilities over recorded financial assets of $4.5 billion or $1,521 per person (provincial population of 2,961,000).

CHART 3 GENERAL FUND* STATEMENT OF REVENUE AND EXPENDITURE 1987/88

	1988	1987
	($ Millions)	
REVENUE		
Taxation	5,744	4,861
Natural resources	1,223	658
Other	630	589
Contributions from Government enterpriscs	470	448
Contributions from the Federal Government	2,020	1,993
Gross revenue	10,087	8,549
Less Transfer to Budget Stabilization Fund	(717)	
Net revenue	9,370	8,549
EXPENDITURE		
Health	2,997	2,860
Social services	1,610	1,512
Education	2,204	1,914
Transportation and communications	768	975
Natural resources, trade and industrial development	721	615
Protection of persons and property	481	453
Aid to local government	403	392
Debt servicing	525	394
General government	178	196
Housing	64	102
Recreation and cultural services	71	67
Transfer of Lottery Fund Special Account balance to Budget Stabilization Fund	26	
Other	113	318
Total expenditure	10,161	9,798
Net Operating Expenditure for the Year	(791)	(1,249)
NON-OPERATING TRANSACTIONS		
Valuation adjustment of investments in and amounts due from Crown corporations and agencies		88
Net Expenditure for the Year	(791)	(1,161)

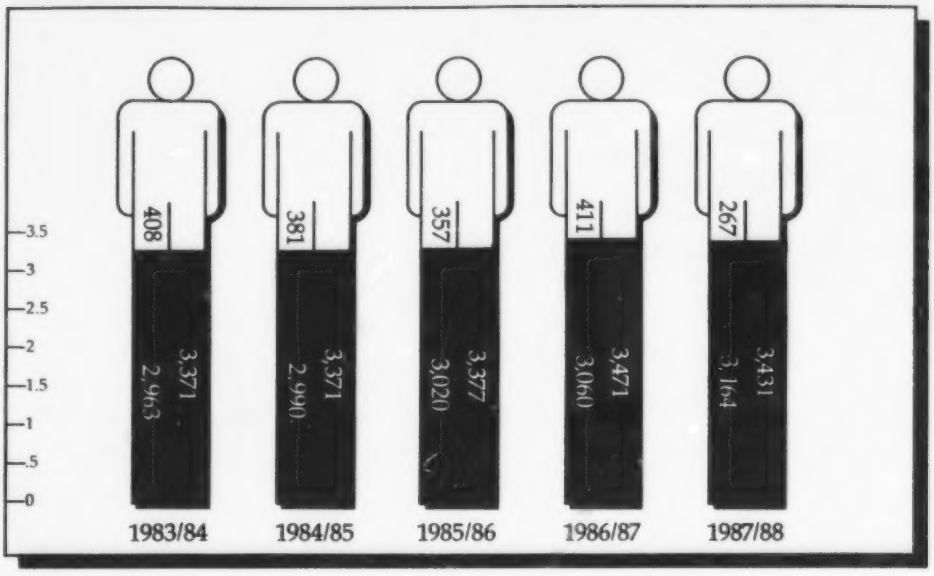
*Full title in the 1987/88 Public Accounts is "General Fund and Special Funds converted to Special Accounts on March 31, 1988."

CHART 4 NET FINANCIAL RESULTS 1983/84 TO 1987/88



Provincial government general fund spending has increased by 22 percent from $8.36 billion in 1983/84 to $10.16 billion in 1987/88. Revenue over the same period has increased by 28 percent from $7.34 billion to $9.37 billion. However, when the effects of inflation and population growth are taken into consideration, spending increased by $60 per person or 2 percent and revenue increased by $201 per person or 7 percent over the same period.

CHART 5 PER CAPITA FINANCIAL RESULTS 1983/84 TO 1987/88 (1988 DOLLARS)



REVENUE

EXPENDITURE

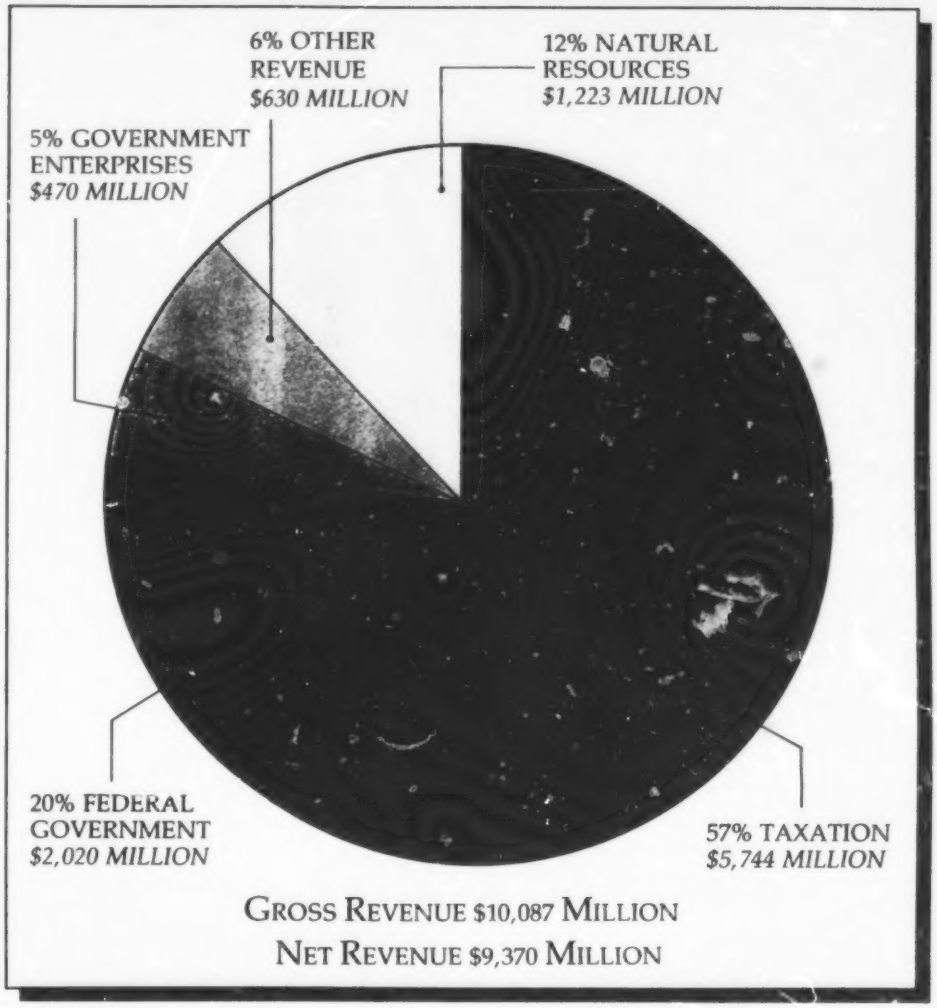
DEFICIT

After taking into account the effects of inflation and population growth, per capita spending has remained relatively unchanged over the past five years.

REVENUE

For 1987/88 net operating revenue of $9,370 million was 10 percent higher than the previous year and on budget (after transfer of $717 million to the Budget Stabilization Fund). The Budget Stabilization Fund was introduced in 1987/88 as part of the government's strategy to meet annual budget targets and to achieve the goal of deficit elimination. The cyclical nature of the provincial economy means that provincial government revenue is extremely volatile making budget planning difficult. In years of strong revenue growth, like 1987/88, transfers will be made into the Budget Stabilization Fund. In years of weak revenue growth, transfers will be made from the Fund into the government's General Fund. Appendix 3 provides details on budgeted and actual revenue by source.

CHART 6 REVENUE SOURCES 1987/88



GROSS REVENUE $10,087 MILLION

NET REVENUE $9,370 MILLION

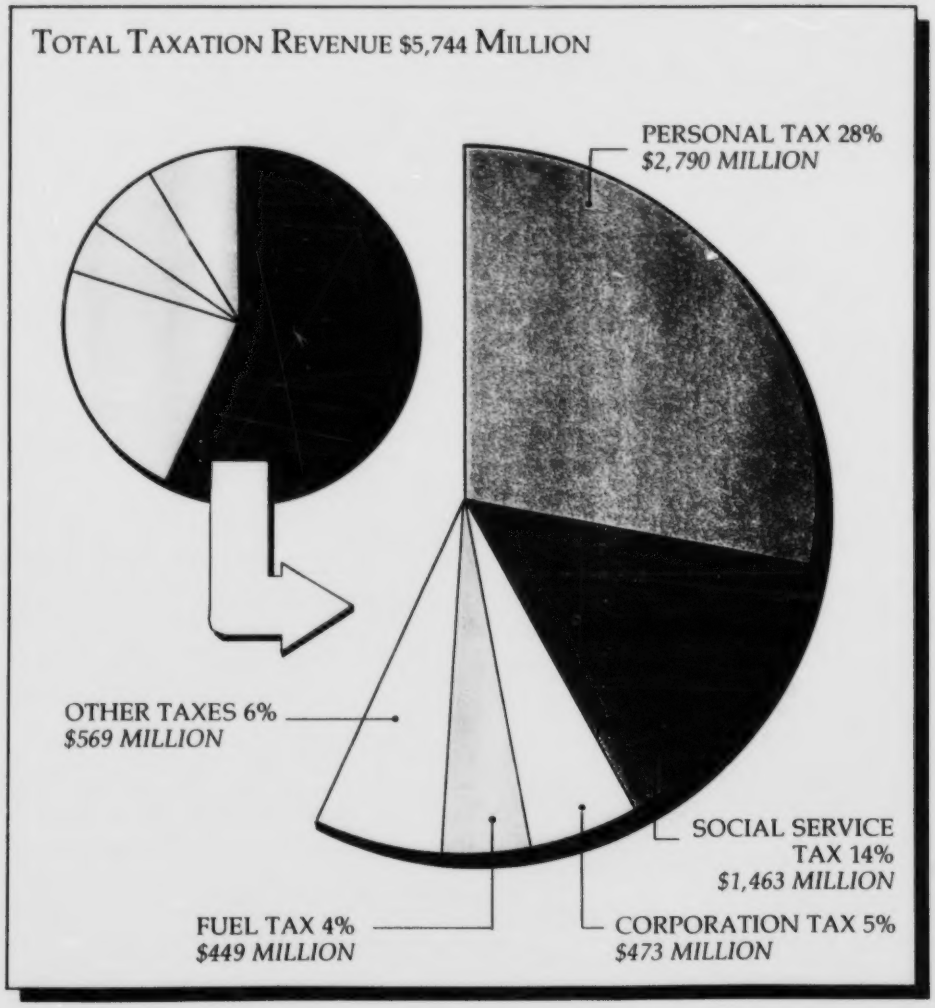
	Total ($ Millions)	Per Capita (Dollars)	Per Cent
Taxation	5,744	1,940	57
Natural resources	1,223	413	12
Other revenue	630	213	6
Contributions from government enterprises	470	158	5
Contributions from the federal government	2,020	682	20
Gross revenue	10,087	3,406	100
Less: Transfer to Budget Stabilization Fund	(717)	(242)	
Net revenue	9,370	3,164	100

Taxation Revenue

Taxation revenue of $5,744 million was $401 million above the budget estimate, and 18 percent higher than during 1986/87.

Personal and corporate income taxes are collected for the provincial government by the federal government. Revenue is paid to the province on the basis of federal estimates of taxes that will be collected during the year. Once sufficient information is available (after approximately one year) an adjustment is made to reflect the taxes actually collected. Personal income tax revenue was $228 million over budget, mainly as a result of accelerated remittances by the federal government of $120 million and better than expected economic performance. Corporation income tax revenue was $86 million over budget. The variance was due to higher-than-expected payments for the 1987 taxation year and a large adjustment payment for prior years.

CHART 7 TAXATION REVENUE 1987/1988



Taxation Revenue
1987/88

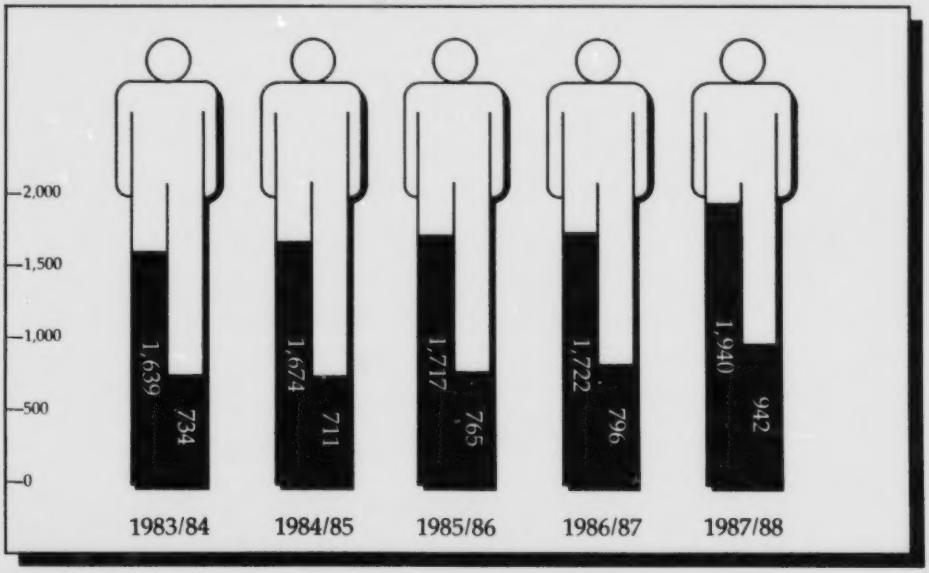
	Total ($ Millions)	Per Capita (Dollars)	Percent of Total Revenue
Personal income tax	2,790	942	28
Corporation income tax	473	160	5
Social service tax	1,463	494	14
Fuel tax	449	152	4
Other tax revenue	569	192	6
Total tax revenue	5,744	1,940	57

Social service tax revenue was $70 million over budget, due to stronger-than-expected growth in retail sales and investment spending. This was 5 percent lower than the previous fiscal year due to the reduction in the tax rate from 7 percent to 6 percent.

Fuel tax revenue was $29 million above budget and 20 percent greater than 1986/87 as a result of higher fuel prices.

Other taxation revenue was 36 percent higher than 1986/87 due to a full year's collection of property purchase tax, but $12 million below budget due to lower-than-expected property purchase tax revenue.

CHART 8 TAXES PER CAPITA - 1983/84 TO 1987/88 (1988 DOLLARS)



TOTAL TAXES PER PERSON

PERSONAL INCOME TAX PER PERSON

After taking into account the effects of inflation and population growth, the per capita total tax burden has increased by $301 over the period 1983/84 to 1987/88, and the per capita personal income tax burden has increased by $208 over the same period.

Natural Resource Revenue

Natural resource revenue of $1,223 million was $565 million more than last year.

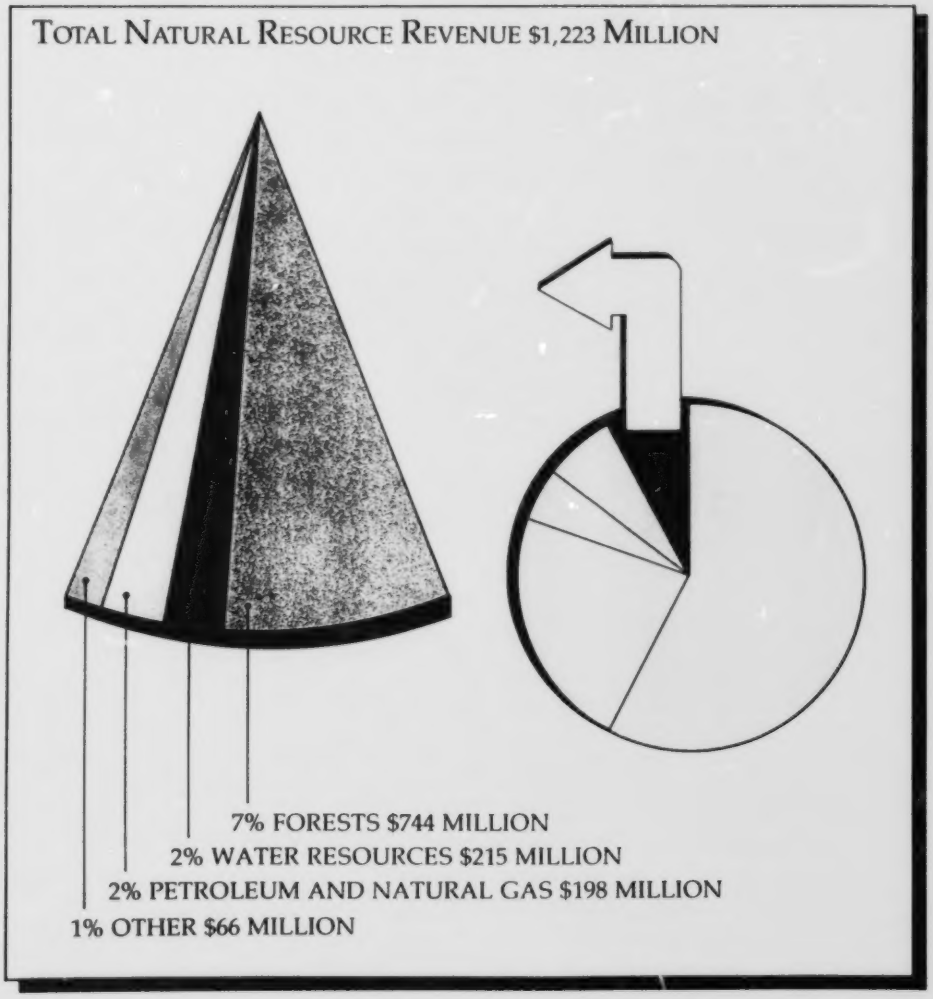
Petroleum and natural gas revenue increased $28 million or 16 percent as a result of increased receipts from bonus bids for oil and natural gas drilling rights.

Forest revenue increased by 302 percent over last year and was $270 million higher than forecast. This was due to strong demand for lumber, pulp and paper, and the new timber pricing system implemented October 1, 1987.

Mineral revenue declined by $2 million from last year, but was $14 million over budgeted revenues.

Water rental income was $3 million above budget, but 9 percent lower than the previous fiscal year.

CHART 9 NATURAL RESOURCE REVENUE 1987/88


TOTAL NATURAL RESOURCE REVENUE $1,223 MILLION
7% FORESTS $744 MILLION
2% WATER RESOURCES $215 MILLION
2% PETROLEUM AND NATURAL GAS $198 MILLION
1% OTHER $66 MILLION

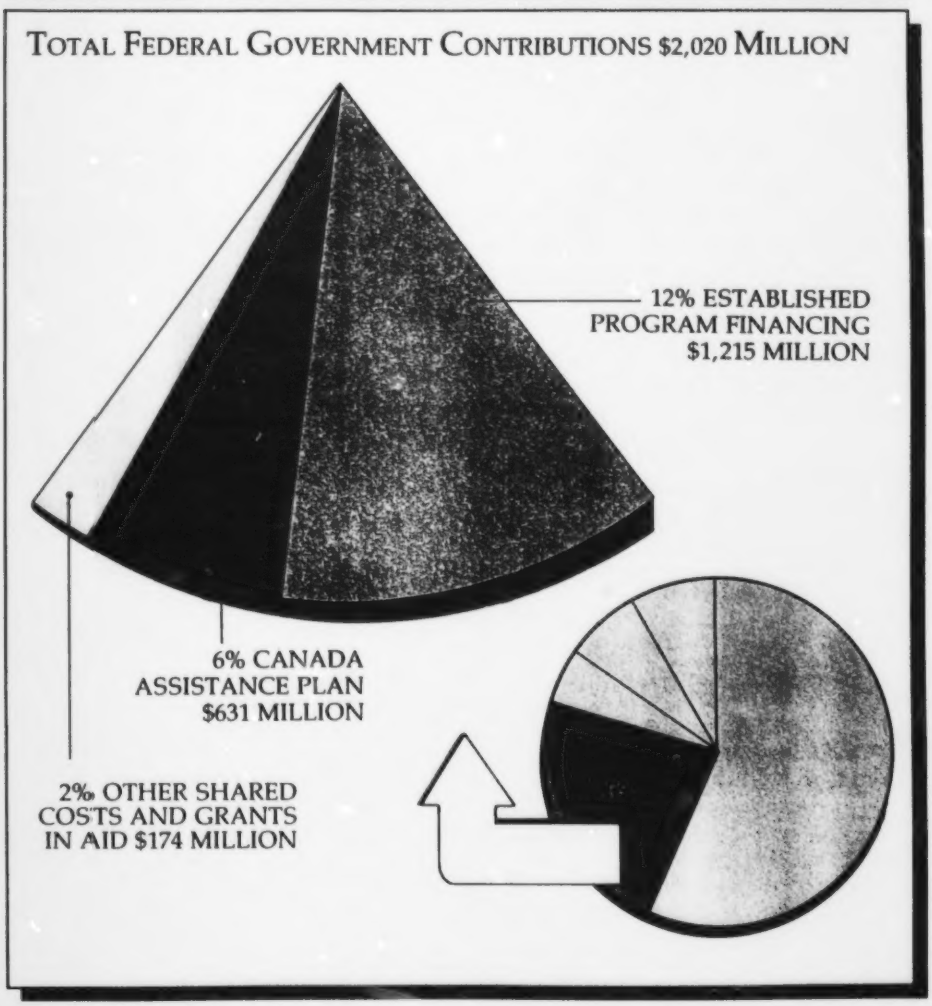
Natural Resource Revenue 1987/88

	Total ($ Millions)	Per Capita (Dollars)	Percent of Total Revenue
Petroleum and natural gas	198	67	2
Water resources	215	73	2
Forests	744	251	7
Other	66	22	1
Total natural resource revenue	1,223	413	12

Contributions from the Federal Government

Contributions from the federal government of $2,020 million were $1 million above budget and 1 percent higher than the previous fiscal year.

CHART 10 FEDERAL GOVERNMENT CONTRIBUTIONS 1987/88


TOTAL FEDERAL GOVERNMENT CONTRIBUTIONS $2,020 MILLION
12% ESTABLISHED PROGRAM FINANCING $1,215 MILLION
6% CANADA ASSISTANCE PLAN $631 MILLION
2% OTHER SHARED COSTS AND GRANTS IN AID $174 MILLION

Federal Government Contributions 1987/88

	Total ($ Million)	Per Capita (Dollars)	Percent of Total Revenue
Established Program Financing	1,215	410	12
Canada Assistance Plan	631	213	6
Other shared costs and grants in aid	174	59	2
Total contributions from federal government	2,020	682	20

Established programs include payments for post-secondary education and health care purposes. Canada Assistance Plan payments are received for cost shared expenditure made by the government for social assistance and welfare services. The other government programs based on cost sharing agreements are primarily for manpower training and economic development.

■ Contributions from Government Enterprises

Contributions from government enterprises of $470 million were $18 million above the budget estimate and up 5 percent from 1986/87. Liquor Distribution Branch profits were $7 million below budget but almost the same as 1986/87.

The provincial government also received a $20 million dividend from the British Columbia Railway Company and dividends of $1 million and $23 million from the British Columbia Ferry Corporation and the British Columbia Buildings Corporation, respectively.

■ Other Revenue

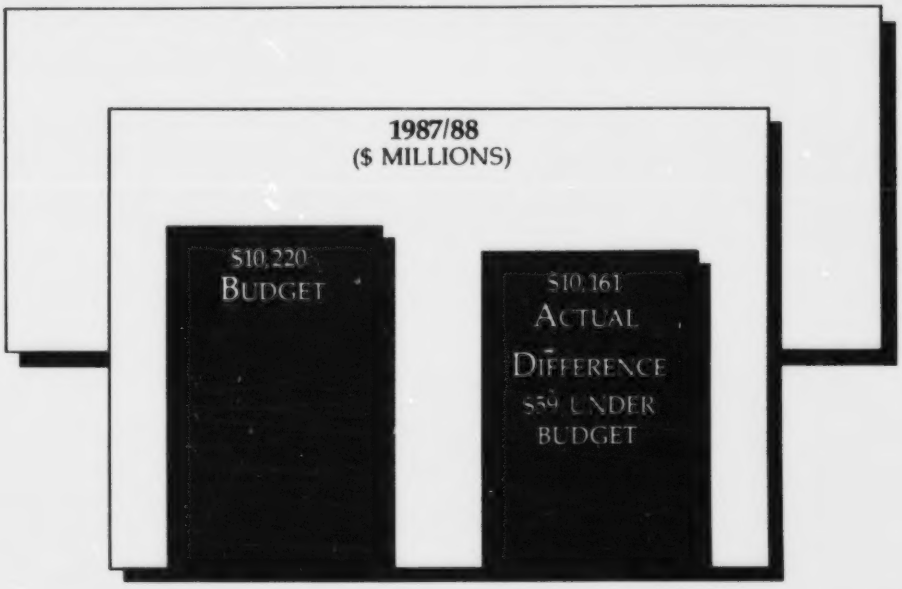
Other revenue of $630 million was $8 million under budget, but 7 percent more than 1986/87.

EXPENDITURE

■ Performance to Budget

Provincial government spending of $10,161 million during 1987/88 was $59 million under the original budget estimate. Appendix 3 provides details of ministry performance against budget.

CHART 11 ACTUAL VS. BUDGETED EXPENDITURES



Ministry of Agriculture and Fisheries spending of $66 million was $33 million below budget mainly because high prices for most agriculture products during 1987/88 resulted in lower claims on the Farm Income Assurance Fund.

Spending by the Ministry of Economic Development of $61 million was $15 million below budget. This was primarily because of lower spending under the federal-provincial Economic and Regional Development Subsidiary Agreements and for enterprise, business and community development programs.

Ministry of Health spending of $3,229 million was $53 million above budget and 6 percent higher than the previous fiscal year. Additional spending for the Medical Services Plan and for hospital programs.

Spending by the Ministry of Provincial Secretary and Government Services of $96 million was $51 million above the original budget estimate. Early Retirement Incentive Plan expenditures for government employees were the main cause of the variance.

Ministry of Transportation and Highways expenditure of $805 million was $61 million below budget and 19 percent lower than 1986/87 expenditure, due to lower-than-expected requirements for highway maintenance and capital construction.

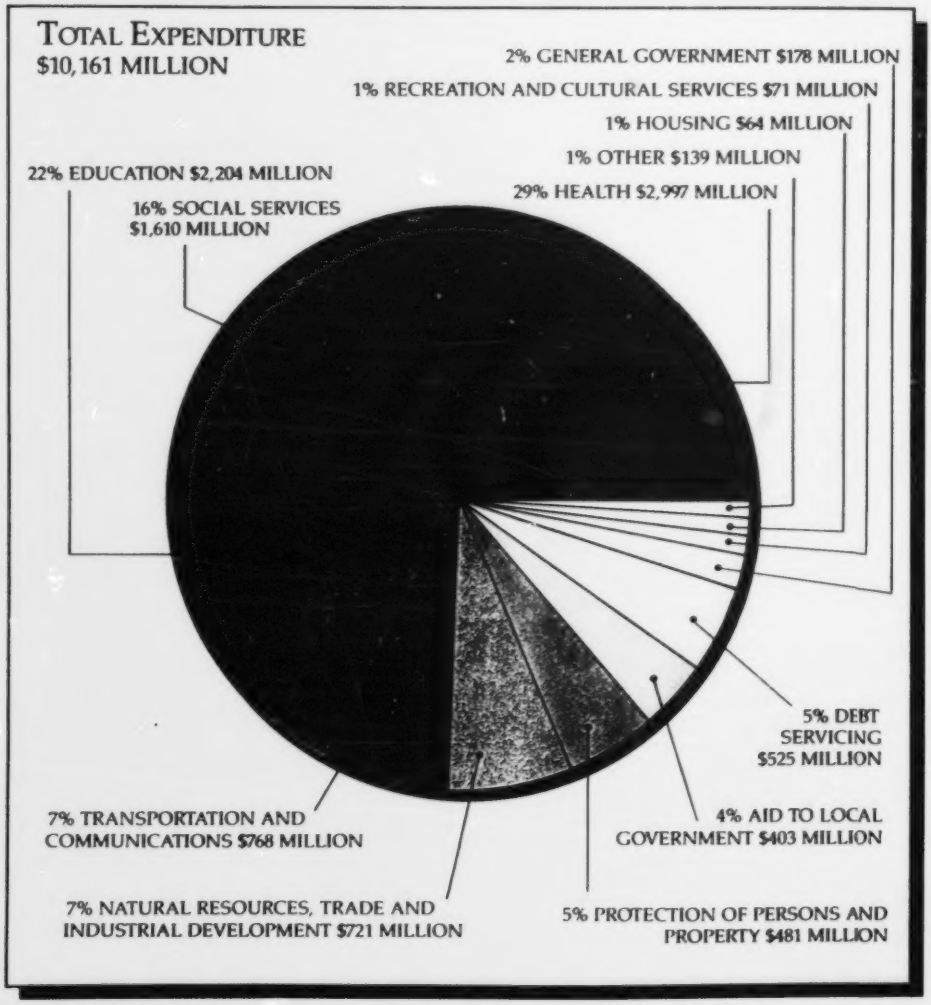
Lottery Fund

Expenditure by the Lottery Fund Special Account of $120 million was $51 million below budget and 59 percent lower than expenditure for the previous year. The underspending resulted from the retirement of Expo 86 debt in fiscal 1986/87 rather than in 1987/88. Expenditure in 1987/88 also included a transfer of $26 million in surplus funds to the Budget Stabilization Fund.

Expenditure by Function

Expenditure by function shows the cost to government to deliver programs and services. The accompanying chart and table show the government's spending by major functional category. As can be seen from the table below, expenditure on health, education and social services accounted for two-thirds of total provincial government expenditure.

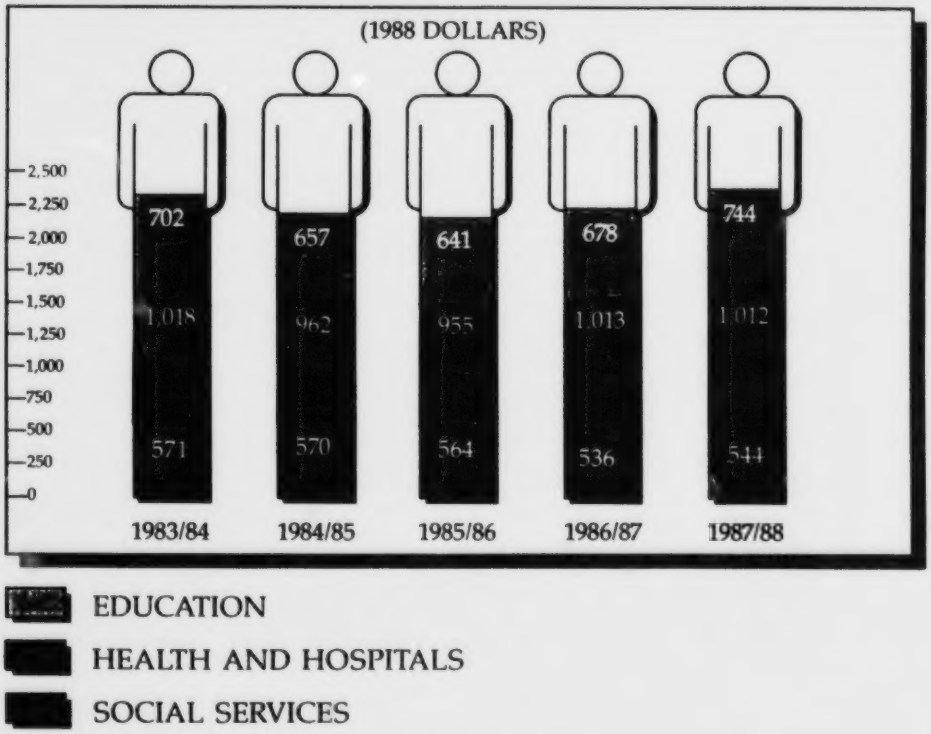
CHART 12 EXPENDITURE BY FUNCTION 1987/88


TOTAL EXPENDITURE
$10,161 MILLION
2% GENERAL GOVERNMENT $178 MILLION
1% RECREATION AND CULTURAL SERVICES $71 MILLION
1% HOUSING $64 MILLION
1% OTHER $139 MILLION
29% HEALTH $2,997 MILLION
22% EDUCATION $2,204 MILLION
16% SOCIAL SERVICES $1,610 MILLION
5% DEBT SERVICING $525 MILLION
4% AID TO LOCAL GOVERNMENT $403 MILLION
5% PROTECTION OF PERSONS AND PROPERTY $481 MILLION
7% NATURAL RESOURCES, TRADE AND INDUSTRIAL DEVELOPMENT $721 MILLION
7% TRANSPORTATION AND COMMUNICATIONS $768 MILLION

Expenditure by Function

	Total ($ Millions)	Per Capita (Dollars)	Percent
Health	2,997	1,012	29
Social services	1,610	544	16
Education	2,204	744	22
Transportation and communication	768	259	7
Natural resources, trade and industrial development	721	244	7
Protection of Persons and Property	481	162	5
Aid to local government	403	136	4
Debt servicing	525	177	5
General government	178	60	2
Housing	64	22	1
Recreation and cultural services	71	24	1
Other	139	47	1
	10,161	3,431	100

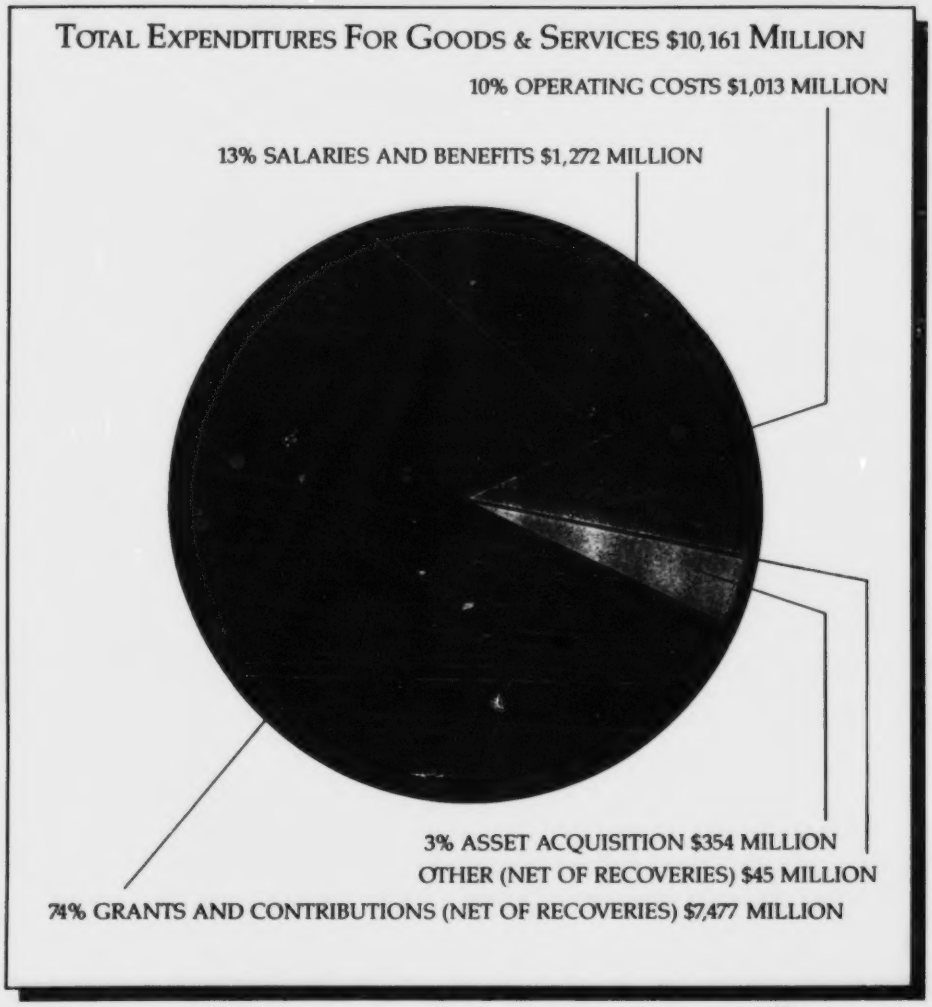
CHART 13 PER CAPITA SOCIAL PROGRAMS EXPENDITURE—1983 84 TO 1987 88



Expenditure on Goods and Services

The government spends money on a wide variety of goods and services to deliver government programs. The chart and tables below provide a breakdown of government spending by major category of goods and or services acquired.

CHART 14 EXPENDITURES FOR GOODS & SERVICES 1987/88


TOTAL EXPENDITURES FOR GOODS & SERVICES $10,161 MILLION
10% OPERATING COSTS $1,013 MILLION
13% SALARIES AND BENEFITS $1,272 MILLION
3% ASSET ACQUISITION $354 MILLION
OTHER (NET OF RECOVERIES) $45 MILLION
74% GRANTS AND CONTRIBUTIONS (NET OF RECOVERIES) $7,477 MILLION

	Total ($ Millions)	Per Capita (Dollars)	Percent
Salaries and benefits	1,272	430	13
Operating costs	1,013	342	10
Asset acquisitions	354	119	3
Grants and contributions (net of recoveries)	7,477	2,525	74
Other (net of recoveries)	45	15	
Total	10,161	3,431	100

Payroll costs of $1,272 million represent the total cost of salaries and benefits paid or payable to employees of the government and to elected officials.

Operating costs of $1,013 million include expenses such as data processing, office rent, telephone, publications and advertising, travel and contracted services.

The $354 million spent on asset acquisition includes items obtained on long-term leases but does not include assets constructed by government personnel. For example, construction costs for a section of a highway or bridge built by government employees are included in salary and operating cost expenditure.

Grants and contributions make up 74 percent of government spending. These payments are made to hospitals, schools, universities and colleges, local governments, societies, agencies and individuals. Of the $7,477 million paid out in grants and contributions, it is estimated that $5,400 million goes directly to salaries paid by receiving organizations.

FINANCIAL REQUIREMENTS AND SOURCES

■ Financial Requirements

The government's financial requirements for 1987/88, that is funds required for working capital and to finance the deficit, totalled $191 million, $637 million less than forecast. Financial requirements reflected an operating deficit $59 million below budget, financing and working capital spending $17 million below budget, and reduced borrowing because of Budget Stabilization Fund revenues of $743 million.

■ Financial Sources

Although only $191 million was required to meet the government's financial requirements, public debt increased by $215 million due to an $18 million increase in debt resulting from changes in unamortized discount and to fund a $6 million increase in cash and temporary investments.

The $215 million change in public debt outstanding for government purposes in 1987/88 consisted of:

- A decrease in outstanding short-term (due in one year or less) promissory notes of $382 million.
- An increase of $127 million in 91-day Treasury Bills.
- An increase in a long-term debt (more than one year) by a net amount of $470 million.

An additional $406 million in long and short-term funds was borrowed by the government and lent to Crown corporations.

PUBLIC DEBT

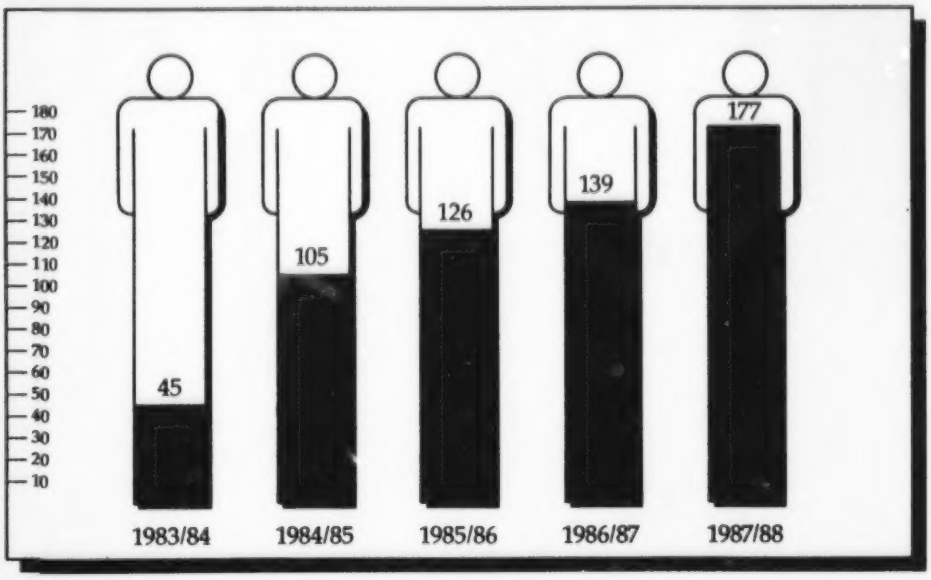
Direct Debt

The provincial government issues direct public debt for government purposes, as needed, to finance its investments and operations.

From 1951/52 until 1981/82 the provincial government financed all operating and capital spending from current revenue and accumulated surpluses with only one exception.

Beginning in 1982/83 operating deficits have been funded through short-term and long-term borrowing in public and private markets in Canada and abroad. Gross direct public debt (principal less sinking funds — see page 19) was $5,210 million. (Note: Net (of unamortized discount) direct public debt was $5,017 million.) As a result of increasing debt, the government's interest expense has risen from $28 million in 1982/83 to $525 million in 1987/88. At 5 percent of total expenditure, this is one of the lowest rates in Canada.

CHART 15 PER CAPITA DEBT SERVICE COSTS 1983/84 TO 1987/88 (1988 DOLLARS)



PROVINCE OF BRITISH COLUMBIA (for government purposes)

Fiscal Agency Loans

The size and complexity of provincial government and Crown corporation financing requires a borrowing program that is carefully structured and coordinated to ensure the most favorable terms in financial markets. To meet this objective, a program of direct borrowing for relending to Crown corporations was implemented in 1983 under amendments to the *Financial Administration Act*. This program, known as fiscal agency borrowing, provides cheaper financing to Crown corporations because of the government's strong credit rating and reputation in financial markets and because a single borrower offering larger debt issues is usually able to borrow at lower rates. At March 31, 1988 fiscal agency debt (principal less sinking funds) of the government totalled $2,649 million.

Guaranteed Debt

Before the introduction of fiscal agency borrowing, most capital spending by Crown corporations and public bodies in British Columbia (other than municipalities) was financed through debt issued by individual Crown corporations and guaranteed by the provincial government. At March 31, 1988 the debt (principal less sinking funds) of Crown corporations and other public bodies, guaranteed by the provincial government was $9,445 million.

When fiscal agency loans are included, total debt (principal less sinking funds) was $12,094 million at March 31, 1988, down 2 percent from March 31, 1987.

Sinking Funds

The government considers it prudent to provide for the orderly retirement of debt as it comes due and regularly sets aside funds to be used to repay debt. These funds, known as sinking funds, are held in trust by the Minister of Finance and Corporate Relations to be used to pay off government and Crown corporation debt as it becomes due.

Sinking funds are currently established for all large debt issues of five years or longer, including funds borrowed from the Canada Pension Plan Investment Fund. At March 31, 1988 sinking fund balances totalled $3,010 million for guaranteed debt, $43 million for fiscal agency debt and $156 million for provincial government direct debt. In recent years the value of some of the guaranteed debt sinking funds has reached or exceeded the amount of the corresponding debt issue in advance of the repayment date. In these cases, under legislative amendments enacted in 1981, payments into the sinking funds can be discontinued. To date, debt having a principal value of $489.6 million has been eligible for this treatment.

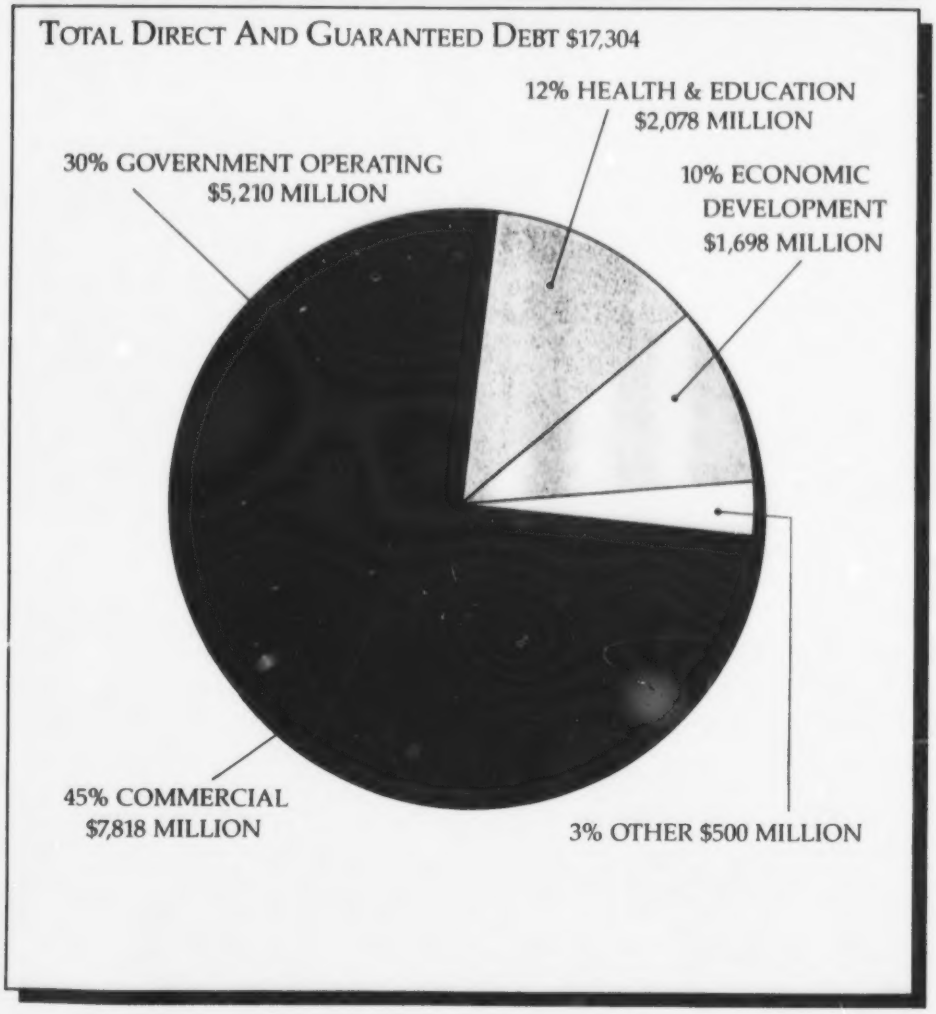
Composition of Direct and Guaranteed Debt

At March 31, 1988 direct and guaranteed debt of the provincial government totalled $17,304 million (*see* chart 16). The direct debt of government comprises approximately 30 percent of the total. Approximately 45 percent is debt of commercial Crown corporations such as the British Columbia Hydro and Power Authority. Commercial Crown corporations receive revenue from the sale of their services at commercial rates and pay all their own operating expenses including debt service charges.

Economic development Crown corporations include British Columbia Ferry Corporation, and British Columbia Transit. These corporations are generally operated as commercial Crown corporations. They may, however, undertake projects which provide economic benefits to the province but which do not generate a sufficient financial return to fully service their debt. In these cases, the provincial government may provide grants or other forms of assistance. At March 31, 1988, the guaranteed debt of economic development Crown corporations represented 10 percent of the total direct and guaranteed debt.

The remaining portion of guaranteed debt and fiscal agency loans has been used for financing education and health capital construction and government services projects. Construction of schools, hospitals, educational institutions and government facilities is financed through borrowing, with the cost generally amortized over a period of 20 years. Debt servicing requirements are met through grants or rental payments from the provincial government and, in the case of schools and hospitals, partly from local property tax levies. At March 31, 1988 guaranteed debt and fiscal agency loans outstanding in respect of health and education services was 12 percent of total direct and guaranteed debt.

CHART 16 DIRECT AND GUARANTEED DEBT 1987/88



APPENDICES

1987-88

Public Accounts Digest

Province of British Columbia

COMPONENTS OF THE FINANCIAL PROCESS

APPENDIX 1

The *Supply Act*

To obtain funds for provincial operations at the beginning of the fiscal year, the government requires approval of the Legislative Assembly.

Because the debate on the Estimates (see page 2) could take some time to complete, the government requires an advance for its ongoing programs. An Interim Supply Bill is tabled to provide this advance. These Interim Supply Bills provide funds for government expenditure for one, two, or as many months as required before approval of the full Estimates is received. A final *Supply Act* is passed once all Votes have been approved by the Legislative Assembly.

Statutory Appropriations

In addition to the year-to-year approval provided by the *Supply Act(s)*, continuing spending authority is provided in other legislation to cover special programs such as fire suppression and flood relief. Programs with permanent spending power are said to have statutory authority.

Special Warrants

A final way in which spending authority is granted under legislation is by way of a Special Warrant. Under provision of the *Financial Administration Act*, such spending approval can be given by the Lieutenant Governor only if the Legislative Assembly is not in session and if the money is deemed, by the Lieutenant Governor in Council, as urgently and immediately required for the public good. Appropriations made by Special Warrant are subsequently reported to, and reviewed by, the Legislative Assembly in the next Supply Bill.

Public Accounts

The Public Accounts include the government's financial statements and are prepared by the Office of the Comptroller General (OCG). The OCG is similar to the comptroller's section in a large corporation. In addition to being responsible for preparing the Public Accounts, the Comptroller General is responsible for accounting and financial systems throughout government. He must ensure there is proper collection, disposition and recording of public money and he must maintain the central accounts of government, issue directives and provide methods by which ministries and staff account for public money.

Auditor General's Report

In addition to expressing his opinion on the government's financial statements, the Auditor General publishes an annual report in which he comments on various matters that he considers require the attention of the Legislative Assembly. The Auditor General's annual report is generally tabled after the Public Accounts are issued. The government's response to the Auditor General's report is tabled by the Minister of Finance and Corporate Relations after the government has had time to consider the Auditor General's recommendations.

Public Accounts Committee

Once the Legislative Assembly receives the Public Accounts and the annual report of the Auditor General, the Select Standing Committee on Public Accounts assesses financial operations and administration of the government. This committee includes both government and opposition members of the Legislative Assembly and is traditionally chaired by a member of the Opposition. Many of the matters addressed by the committee directly relate to the Public Accounts.

STRUCTURE OF GOVERNMENT FINANCIAL STATEMENTS

APPENDIX 2

The government carries on its activities through a variety of appropriations, special funds, corporations and agencies.

■ General Fund

The general fund is the main operating account of government.

■ Special Fund

There was only one special fund, the Budget Stabilization Fund, at March 31, 1988. This special fund was not part of the ongoing operations of government.

■ Combined Financial Statements

These statements combine the Budget Stabilization Fund and the General Fund into the Consolidated Revenue Fund.

■ Consolidated Revenue Fund

The consolidated revenue fund consists of the general fund and special fund. All expenditure and revenue through the consolidated revenue fund are reported in the government's combined financial statements.

■ Crown Corporations and Agencies

A number of government activities are carried out though Crown corporations and agencies. These activities range from self-sufficient, commercial business such as British Columbia Hydro and Power Authority to extensions of government programs carried out by organizations such as the Medical Services Commission.

SUMMARY FINANCIAL STATEMENTS

APPENDIX 3

Contents

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NOTE: These unaudited summary financial statements are mainly derived from the government's audited financial statements which may be found in Sections A and B of Volume 1 of the 1987/88 Public Accounts.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The three main financial statements are as follows:

General Fund Financial Statements — Accounts included in these statements are the main operating accounts of the government, and special accounts which have a statutory spending authority.

Combined Financial Statements — (Consolidated Revenue Fund) Accounts included in these statements are those of the general fund which include the main operating accounts of the government and special fund which include ear-marked revenue and funds set aside by the Legislative Assembly from the general fund for specific purposes.

Consolidated Financial Statements — These statements aggregate the accounts of the combined general fund and special funds with those of certain Crown corporations: "service" corporations, which exist to service the government and "provincial" corporations, which conduct government activities and complement government programs. Other Crown corporations, identified as "transportation" companies and "commercial" enterprises, are included in these accounts on an equity basis, whereby the government's investment in these entities is adjusted to reflect underlying book values.

In addition to the above, the Public Accounts contain the individual financial statements for all major Crown corporations and agencies.

Basis of Accounting

The accrual basis of accounting (matching revenue and expenditure to the period in which it was earned or spent) is used in the preparation of these financial statements as explained below.

Revenue

All revenues are recorded on an accrual basis except where accruals cannot be determined with a reasonable degree of certainty or where their estimation is impractical. Exceptions, which normally relate to certain payments to the government under the *Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act 1977*, are recorded on a cash basis.

Expenditure

All expenditure, including the cost of fixed assets, is recorded for goods received and services rendered during the fiscal year. Grants and contributions (which include forgivable loans) are recorded as expenditure when disbursement of the funds has been authorized, except for social assistance payments.

Assets

All assets are recorded to the extent they represent claims upon outside parties or items held for resale to outside parties as a result of events and transactions prior to fiscal year-end. Rental payments for capital leases are reported as expenditure at the dates of inception of the leases.

Liabilities

All liabilities are recorded to the extent they represent claims payable to outside parties as a result of events and transactions prior to the fiscal year-end.

Foreign Currency Conversion

Monetary assets and liabilities denominated in foreign currencies are converted to Canadian dollars at the prevailing exchange rate at year-end. Foreign currency transactions are converted at the exchange rate prevailing at the date of the transaction unless hedged (a transaction intended to reduce the risk of loss from price fluctuations) by forward contracts which specify the rate of exchange.

Adjustments arising as a result of foreign currency conversion are credited or charged to operations at the time the adjustments

arise. Unrealized foreign currency gains and losses on long-term, fixed-term monetary assets and liabilities are reported as a deferred charge and amortized over the remaining terms of the related items on a straight-line basis. Non-monetary assets and liabilities are converted at historical rates of exchange.

Cash and Temporary Investments

Cash balances are shown after deducting outstanding cheques issued prior to fiscal year-end. Those issued subsequent to fiscal year-end relating to the previous year are included in accounts payables.

Temporary investments include short-term investments and are recorded at the lower of cost or market value.

Accounts Receivable

All amounts receivable at the fiscal year-end for work performed, goods supplied or services rendered are recorded as revenue of the fiscal year. Provision is made where collection is considered doubtful.

Inventories

Inventories comprise items held for resale and are recorded at the lower of cost or net realizable value. Inventories of supplies are charged to the respective programs when the cost is incurred.

Property under development for sale to outside parties is recorded at the lower of cost or net realizable value.

Investment In and Amounts Due from Crown Corporations and Agencies

Investment in and amounts due from Crown corporations and agencies represent long-term investments and amounts due other than trade receivables. They are recorded at cost unless significant prolonged impairment in value has occurred. If so, they are written down to recognize this loss in value. If the value of the investment is restored, the investment is written back up to not more than its original cost.

Loans, Advances and Other Investments

Loans, advances and other investments are recorded at cost less adjustment for any prolonged loss in value.

Mortgages Receivable

Mortgages receivable are secured by real estate and are repayable over periods ranging up to 30 years. Provision is made where collection is considered doubtful.

Fiscal Agency Loans

Fiscal Agency loans are loans made to government bodies which have been financed by borrowing made by the Minister of Finance and Corporate Relations in his capacity as fiscal agent on behalf of government bodies. These loans are recorded at maturity value less unamortized discount and sinking fund balances. Discounts are amortized on an effective-yield basis.

Fixed Assets

Disbursements for fixed assets are recorded as expenditures in the fiscal year in which assets are acquired. Highways, bridges, wharves, ferries and ferry landings, buildings, office equipment, furniture, automobiles and Crown land comprised of parks, forests and all other publicly held land in the province, not including property under development, are recorded at a nominal value of $1.

Other Assets

Other assets include prepaid program costs which represent expenditures made during the fiscal year for work to be performed, goods to be supplied, services to be rendered or contractual obligations to be fulfilled by outside parties in a subsequent fiscal year. These costs also include inventories of operating materials held in the Purchasing Commission and Queen's Printer warehouses pending distribution in a subsequent fiscal year.

Also included in other assets are certain deferred charges.

Accounts Payable and Accrued Liabilities

All amounts payable (including trade payables to Crown corporations and agencies) for work performed, goods supplied, services known to have been rendered or for charges incurred in accordance with the terms of a contract are recorded as part of the expenditure of the fiscal year.

Due to Crown Corporations, Agencies and Funds

Amounts due to Crown corporations, agencies and funds represent liabilities incurred (other than trade payables) which are payable in the following fiscal year.

Deferred Revenue

Deferred revenue represents amounts received or receivable prior to the fiscal year-end in payment of revenue that will be earned in subsequent fiscal years.

Public Debt

Public debt represents direct debt obligations for the purposes of the Government of British Columbia and fiscal agency loans. These obligations are recorded at principal less unamortized discount and sinking fund balances where applicable. Discounts are amortized on an effective-yield basis.

GENERAL FUND* BALANCE SHEET AS AT MARCH 31, 1988

ASSETS	1987/88 ($ Millions)	1986/87
Cash and temporary investments	116	110
Accounts receivable	812	789
Inventories	119	105
Investments in and amounts due from Crown corporations, agencies and funds	1,004	1,040
Loans, advances and other investments	163	154
Mortgages receivable	323	300
Fiscal agency loans	2,623	2,217
Other assets	167	122
	5,327	4,837
LIABILITIES AND NET EQUITY		
Liabilities:		
Accounts payable and accrued liabilities	993	896
Due to Crown corporations, agencies and funds	942	422
Deferred revenue	256	213
Public debt, issued for government purposes	5,017	4,802
Public debt, to finance fiscal agency loans	2,623	2,217
	9,831	8,550
Net equity (deficiency)	(4,504)	(3,713)
	5,327	4,837

* Full title in the 1987/88 Public Accounts is "General Fund and Special Funds Converted to Special Accounts on March 31, 1988"

GENERAL FUND STATEMENT OF REVENUE AND EXPENDITURE FOR THE FISCAL YEAR ENDED MARCH 31, 1988

	1987/88	1986/87
	($ Millions)	
REVENUE		
Taxation	5,744	4,861
Natural resources	1,223	658
Other	630	589
Contributions from government enterprises	470	448
Contributions from the federal government	2,020	1,993
Gross revenue	10,087	8,549
Less: Transfer to Budget Stabilization Fund	(717)	
Net Revenue	9,370	8,549
EXPENDITURE		
Health	2,997	2,860
Social services	1,610	1,512
Education	2,204	1,914
Transportation and communications	768	975
Natural resources, trade and industrial development	721	615
Protection of persons and property	481	453
Aid to local government	403	392
Debt servicing	525	394
General government	178	196
Housing	64	102
Recreation and cultural services	71	67
Transfer of Lottery Fund Special Account balance to Budget Stabilization Fund	26	
Other	113	318
Total expenditure	10,161	9,798
Net operating expenditure for the year	(791)	(1,249)
NON-OPERATING TRANSACTIONS		
Valuation adjustment of investments in and amounts due from Crown corporations and agencies	0	88
Net expenditure for the year	(791)	(1,161)

GENERAL FUND STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE FISCAL YEAR ENDED MARCH 31, 1988

	Assets	Liabilities	Net Equity (deficiency)
		($ Millions)	
Financial Position — Beginning of Year	4,837	(8,550)	(3,713)
Changes during year —			
Cash and temporary investments—increases	6		
Investments in and amounts due from Crown corporations and agencies (decreases)	(36)		
Fiscal agency loans—increases	406		
Other assets—increases	114		
Public debt, issued for government purposes (increase)		(215)	
Public debt, to finance fiscal agency loans (increase)		(406)	
Other liabilities (increases)		(660)	
Net expenditure for the year			(791)
Financial position — end of year	5,327	(9,831)	(4,504)

GENERAL FUND REVENUE BY SOURCE

	Budget 1987 88	Actual 1987 88	Actual 1986 87
		($ Millions)	
Taxation revenue:			
Personal income	2,562	2,790	2,248
Corporation income	387	473	281
Social service	1,393	1,463	1,541
Gasoline and fuel	420	449	373
Tobacco	223	228	212
Property purchase	168	140	1
Other	190	201	205
	5,343	5,744	4,861
Natural resource revenue:			
Petroleum and natural gas	179	198	170
Minerals	40	54	56
Forests	474	744	185
Water resources	212	215	236
Wildlife	13	12	11
	918	1,223	658
Other revenue:			
Sales and services	287	273	282
Licences and permits	208	199	183
Interest from investments	62	68	53
Miscellaneous	81	90	71
	638	630	589
Contributions from government enterprises:			
Liquor Distribution Branch	432	425	425
Other	20	45	23
	452	470	448
Contributions from federal government:			
Established Programs Financing	1,228	1,215	1,205
Canada Assistance Plan	629	631	611
Other	162	174	177
	2,019	2,020	1,993
Gross Revenue	9,370	10,087	8,549
Less transfer to Budget Stabilization Fund		(717)	
Net Revenue	9,370	9,370	8,549

GENERAL FUND EXPENDITURE BY MINISTRY[1]

	Budget 1987/88	Actual 1987/88	Actual 1986/87
		($ Millions)	
Legislation	14	16	11
Auditor General	4	4	4
Ombudsman	3	2	2
Office of the Premier	7	7	6
Advanced Education and Job Training	812	806	739
Agriculture and Fisheries	99	66	70
Attorney General	426	436	418
Economic Development	76	61	51
Education	1,367	1,378	1,249
Energy, Mines and Petroleum Resources	40	38	39
Environment and Parks	137	133	125
Finance and Corporate Relations	64	65	80
Forests and Lands	425	429	347
Health	3,176	3,229	3,045
Labour and Consumer Services	23	25	21
Municipal Affairs	418	416	406
Provincial Secretary and Government Services	45	96	62
Social Services and Housing	1,391	1,379	1,325
Tourism, Recreation and Culture	54	53	48
Transportation and Highways	866	805	996
Management of the public debt	530	525	394
Contingencies	50	50	30
B.C. Lottery Fund	171	120	290
Other	22	22	40
Total operating expenditure	10,220	10,161	9,798

[1] Ministry organization shown is the ministry organization in effect at March 31, 1988.

COMBINED BALANCE SHEET AS AT MARCH 31, 1988

	1987/88	1986/87
	($ Millions)	
ASSETS		
Cash and temporary investments	116	110
Accounts receivable	812	789
Inventories	119	105
Investments in and amounts due from Crown corporations and agencies	1,004	1,040
Loans, advances and other investments	163	154
Mortgages receivable	323	300
Fiscal Agency loans	2,623	2,217
Other assets	167	122
	5,327	4,837
LIABILITIES AND NET EQUITY (DEFICIENCY)		
Liabilities:		
Accounts payable and accrued liabilities	993	896
Due to Crown corporations, agencies and funds	199	422
Deferred revenue	255	213
Public debt, issued for Government purposes	5,017	4,802
Public debt, to finance Fiscal Agency loans	2,623	2,217
	9,087	8,550
Net equity (deficiency)	(3,760)	(3,713)
	5,327	4,837

COMBINED STATEMENT OF REVENUE AND EXPENDITURE FOR THE FISCAL YEAR ENDED MARCH 31, 1988

	1987/88	1986/87
	($ Millions)	
REVENUE		
Taxation	5,744	4,861
Natural resources	1,223	658
Other	630	589
Contributions from Government enterprises	470	448
Contributions from Federal Government	2,020	1,993
Total revenue	10,087	8,549
EXPENDITURE		
Health	2,997	2,860
Social services	1,610	1,512
Education	2,204	1,914
Transportation and communications	768	975
Natural resources, trade and industrial development	721	615
Protection of persons and property	481	453
Aid to local government	403	392
Debt serving	525	394
General government	178	196
Housing	64	102
Recreation and cultural services	71	67
Other	113	318
Total expenditure	10,135	9,798
Net Operating Expenditure for the Year	(48)	(1,249)
NON-OPERATING TRANSACTIONS		
Valuation adjustment of investments in and amounts due from Crown corporations and agencies	0	88
Net Expenditure for the Year	(48)	(1,161)